STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

DEPARTMENT OF FOOD AND AGRICULTURE A.G. Kawamura, Secretary

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Re: Different Looks at the 2003 Manufacturing Cost Exhibit

TO ALL INTERESTED PARTIES:

A request was made by a dairy industry organization to perform two simple analyses on the 2003 Manufacturing Cost Exhibit. First, the requester wanted the Department to recalculate the weighted average costs for the three bulk commodities on a graduated and sequential cost bases in 2.5% increments starting at 50% and ending at 100%.

- Table 1 shows the weighted average costs per pound for butter, nonfat powder and Cheddar cheese.
- The weighted average costs were generated based on a specific percentage of total product processed.
- The procedure for developing the figures required using 100% of the production from some plants and a fraction of production from a remaining plant to equal the level of production being examined.
  - For example, the weighted average cost for butter at the 80% level is the weighted average cost of 100% of the product from the four lowest cost plants and approximately 45% of the product of the fifth lowest cost plant, which gives the requisite 80% of butter.
- For each of the commodities, the 100% of total production weighted average cost matches the weighted average cost as found in the Manufacturing Cost Exhibits released in November 2003.

Table 1. Weighted Average Costs per Pound for Butter, Powder and Cheddar Cheese Using the 2003 Manufacturing Cost Exhibit.

Percent of Total Production	Bulk Butter	Nonfat Powder	Cheddar Cheese
50.0%	$0.1090	$0.1328	$0.1530
52.5%	$0.1097	$0.1336	$0.1530
55.0%	$0.1104	$0.1342	$0.1531
57.5%	$0.1110	$0.1349	$0.1531

Table 1, Continued. Weighted Average Costs per Pound for Butter, Powder and Cheddar Cheese Using the 2003 Manufacturing Cost Exhibit.

Percent of Total Production	Bulk Butter	Nonfat Powder	Cheddar Cheese
60.0%	$0.1116	$0.1354	$0.1532
62.5%	$0.1121	$0.1359	$0.1533
65.0%	$0.1127	$0.1364	$0.1534
67.5%	$0.1131	$0.1369	$0.1535
70.0%	$0.1137	$0.1374	$0.1536
72.5%	$0.1143	$0.1378	$0.1537
75.0%	$0.1150	$0.1383	$0.1538
77.5%	$0.1156	$0.1387	$0.1539
80.0%	$0.1161	$0.1390	$0.1543
82.5%	$0.1166	$0.1394	$0.1551
85.0%	$0.1171	$0.1397	$0.1561
87.5%	$0.1176	$0.1401	$0.1570
90.0%	$0.1180	$0.1406	$0.1578
92.5%	$0.1185	$0.1411	$0.1587
95.0%	$0.1189	$0.1419	$0.1599
97.5%	$0.1193	$0.1433	$0.1614
100.0%	$0.1235	$0.1464	$0.1632

Second, the requester wanted the Department to determine what level of manufacturing cost allowance was required to cover a specific volume of product. This analysis was performed on the three bulk commodities on graduated and sequential cost bases as well. Because of the confidential nature of the cost data, the percentages of volume covered are given as ranges, and the topmost range has been omitted.

- Table 2 contains the manufacturing cost allowances necessary to cover the range of product listed.
- The percentage ranges do not represent plants; they represent product volumes.
- The manufacturing costs are not weighted averages; they represent the level of allowance required such that an approximate percentage of product is covered.
- Examples using table:
  - If the butter manufacturing cost allowance were set at $0.124 per pound, then approximately 50% – 59.9% of the butter would have been produced at that cost or less.
  - If the cheese manufacturing cost allowance were set to $0.156 per pound, then approximately 70% – 79.9% of the cheese would have been produced at that cost or less.

Table 2. Level of Manufacturing Cost Allowance Needed to Cover the Processing Costs of Dairy Products

Range of Product Pounds Covered	Butter	Nonfat Powder	Cheese
50% to 59.9%	$0.124	$0.149	$0.154
60% to 69.9%	$0.126	$0.149	$0.156
70% to 79.9%	$0.133	$0.151	$0.156
80% to 89.9%	$0.133	$0.151	$0.187
Current Manufacturing Cost Allowances	*$0.132*	*$0.150*	*$0.175*

Sincerely,

David K. Ikari, Chief
Dairy Marketing Branch